

ASTROLINE COMMUNICATIONS COMPANY LIMITED PARTNERSHIP

STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 1986 AND 1985

	<u>1 9 8 6</u>	<u>1 9 8 5</u>
REVENUES, net of agency commissions	\$ 1,239,635	\$ 200,089
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EXPENSES:		
Programming and technical (including amortization of broadcast rights)	\$ 5,334,059	\$ 1,925,585
Selling and marketing	1,741,340	969,501
General and administrative	1,471,042	1,464,508
Depreciation (Note 2)	816,441	398,051
Amortization (Note 2)	73,632	5,700
Net trade (Note 2)	73,390	29,503
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	\$ 9,509,904	\$ 4,792,848
	-----	-----
	\$(8,270,269)	\$(4,592,759)
	-----	-----
Other income	\$ 10,115	\$ 19,510
Interest expense (Notes 1, 3 and 4)	(12,693)	(417,806)
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Net loss	\$(8,272,847)	\$(4,991,055)
	=====	=====

The accompanying notes are an integral
part of these financial statements.

RC 006646

PB 004750

ASTROLINE COMMUNICATIONS COMPANY LIMITED PARTNERSHIP

STATEMENTS OF CHANGES IN PARTNERS' CAPITAL

FOR THE YEARS ENDED DECEMBER 31, 1986 AND 1985 (Note 1)

	<u>Limited Partners' Capital</u>	<u>General Partners' Capital</u>	<u>Total Partners' Capital</u>
BALANCE, January 1, 1985	\$ (150,456)	\$ (64,510)	\$ (214,966)
Capital contributions	9,800,000	-	9,800,000
Net loss	(4,941,145)	(49,910)	(4,991,055)
Less- Notes receivable	(720)	(280)	(1,000)
BALANCE, December 31, 1985	<u>\$ 4,707,679</u>	<u>\$(114,700)</u>	<u>\$ 4,592,979</u>
Capital contributions	8,510,999	-	8,510,999
Net loss	(8,190,119)	(82,728)	(8,272,847)
BALANCE, December 31, 1986	<u>\$ 5,028,559</u>	<u>\$(197,428)</u>	<u>\$ 4,831,131</u>

The accompanying notes are an integral
part of these financial statements.

RC 006647

PB 004751

ASTROLINE COMMUNICATIONS COMPANY LIMITED PARTNERSHIP

STATEMENTS OF CHANGES IN FINANCIAL POSITION

FOR THE YEARS ENDED DECEMBER 31, 1986 AND 1985

	<u>1 9 8 6</u>	<u>1 9 8 5</u>
CASH WAS USED FOR:		
Operations-		
Net loss	\$ (8,272,847)	\$ (4,991,055)
Items not requiring the use of cash-		
Depreciation	816,441	398,051
Program amortization	3,815,523	1,220,242
Amortization of other assets	73,632	5,700
	-----	-----
Cash used for operations	\$ (3,567,251)	\$ (3,367,062)
OTHER USES OF CASH:		
Purchases of property and equipment	(2,635,361)	(4,688,624)
Increase in accounts receivable, net	(240,264)	(148,478)
Increase in prepaid expenses and other current assets	(83,372)	(124,470)
Increase in deposit on Avon site (Note 5)	-	(100,000)
Increase in other deposits	-	(42,475)
Cash investments in programming including deposits	(3,140,124)	(1,700,547)
Increase in license and organizational costs	-	(2,745,777)
Decrease in note payable and capital lease obligation	(202,984)	-
	-----	-----
Total uses of cash	\$ (9,869,356)	\$ (12,917,433)
CASH WAS PROVIDED BY:		
Capital contributions by limited partners	\$ 8,510,999	\$ 9,800,000
Increase in accounts payable and accrued liabilities	1,080,924	577,565
Increase in note payable	-	2,560,679
Increase in capital lease obligation	-	51,599
Decrease in deposits	245,441	-
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Total cash provided	\$ 9,837,364	\$ 12,989,843
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INCREASE (DECREASE) IN CASH DURING THE YEAR	\$ (31,992)	\$ 72,410
BEGINNING CASH BALANCE	101,386	28,976
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ENDING CASH BALANCE	\$ 69,394	\$ 101,386
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RC 006648

The accompanying notes are an integral
part of these financial statements.

PB 004752

ASTROLINE COMMUNICATIONS COMPANY LIMITED PARTNERSHIP

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1986

(1) Organization

Astroline Communications Company Limited Partnership (the Partnership) is a Massachusetts limited partnership which was organized in May 1984 to purchase the license of, and operate an independent UHF station (the Station) in Hartford, Connecticut. The license and certain assets (primarily land, a transmitter building and a tower) were purchased by the Partnership in January 1985 for approximately \$3,080,000. The purchase was financed by a capital contribution of \$519,321 from the limited partners and the issuance of a \$2,560,679 note to the seller. The Partnership also purchased a studio building for \$526,525 financed by a capital contribution from the limited partners.

The Federal Communications Commission (FCC) approved the transfer of the license to the Partnership, but such approval has been appealed by a dissenting outside party (see Note 6). The FCC has awarded the Partnership a special temporary license, with the current license due to expire April 1, 1989, subject to the outcome of the appeal noted above.

The capital and operating needs of the Partnership have been financed primarily through capital contributions from certain of the limited partners.

Profits, losses and cash flow are allocated 99% to the limited partners as a class and 1% to the general partners as a class until the limited partners are repaid their capital contributions, plus a return (based on the prime interest rate) on any contributions funded by the limited partners. The total amount contributed to the Partnership by the limited partners was \$18,310,999.

Subsequent to these distributions, the two individual general partners will receive a priority distribution of \$1,000,000, after which all further profits, losses and cash flow will be allocated in accordance with the ownership percentages in the Partnership agreement.

RC 006649

PB 004753

ASTROLINE COMMUNICATIONS COMPANY LIMITED PARTNERSHIP

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1986

(Continued)

(1) Organization (Continued)

The limited partners have a 72% ownership in the Partnership with the remaining 28% ownership allocated to the general partners.

(2) Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the Partnership are presented using the accrual basis of accounting. No provision has been made for federal or state income taxes in the financial statements of the Partnership, as the partners are required to report on their individual income tax returns their allocable share of income, gains, losses and credits of the Partnership. The Partnership will file its tax returns on the accrual basis.

Trade and Barter Transactions

The Partnership engages in trade and barter transactions whereby advertising time is exchanged for merchandise or services or as part of a syndicated program arrangement. Such transactions are recorded at the estimated fair value of the merchandise or service received to the extent these values can be determined. The Partnership does not value the programming time exchanged in connection with syndicated program barter transactions as the values are not determinable.

Trade revenues are recorded during the period the advertising is aired while trade expenses are recorded during the period the merchandise or service is received. At the end of a reporting period, a liability (deferred income) is recorded if the value of merchandise or services received exceeds the value of broadcast time provided. Conversely, a receivable is recorded if the value of broadcast time aired exceeds the value of merchandise or services received.

RC 006650

PB 004754

ASTROLINE COMMUNICATIONS COMPANY LIMITED PARTNERSHIP

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1986

(Continued)

(2) Significant Accounting Policies (Continued)

Program Broadcast Rights

The Partnership purchases the rights to televise certain program series and feature films. The contracts provide for a specified number of runs or unlimited runs over the contract life (approximately one to three years). The cost of these rights is charged to expense based on formulas that generally allocate a greater portion of the cost to the initial run and lesser portions to subsequent runs. The estimated cost of existing program broadcast rights to be charged to expense within one year has been included in current assets; amounts due within one year for program broadcast rights are included in current liabilities.

Depreciation

The Partnership provides for depreciation using accelerated methods of depreciation and charges the costs of property and equipment to expense over their estimated useful lives. The estimated useful life for each asset group is as follows:

	<u>Life in Years</u>
Buildings and improvements	18-19
Broadcasting, office and other equipment	5

Amortization

The Partnership is amortizing the broadcast license over a 40-year period and organizational costs over a five-year period.

(3) Long-Term Debt

In connection with the purchase of the assets of the Station, the Partnership issued a note in the principal amount of \$2,560,679 to the former licensee, payable in 120 consecutive monthly installments, including interest, of approximately \$33,958. Interest shall begin to accrue at 12% per year at such time as a final, uncontested FCC license is obtained and the monthly payments

PB 004755

RC 006651

ASTROLINE COMMUNICATIONS COMPANY LIMITED PARTNERSHIP

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1986

(Continued)

(3) Long-Term Debt (Continued)

will commence one month thereafter (see Note 6). The entire balance of the note has been reflected as long-term at December 31, 1986. The note is secured by a mortgage on certain real estate in Avon, Connecticut.

In 1986, the Partnership offset payments for property taxes on the property in Avon, Connecticut, which arose prior to the acquisition of the license, against the note payable described above.

(4) Capital Leases

The Partnership has accounted for the leases of certain assets as capital leases whereby the assets are capitalized along with the related liabilities. The balance at December 31, 1986 was as follows:

Cost	\$ 59,051
Accumulated depreciation	(21,849)

Net book value	\$ 37,202

Minimum future lease payments under capital lease obligations as of December 31, 1986 are as follows:

1987	\$ 18,123
1988	16,076
1989	14,004
1990	9,445

	\$ 57,648
Less- Amount representing interest costs	(15,269)

Present value of net minimum lease payments	\$ 42,379

ASTROLINE COMMUNICATIONS COMPANY LIMITED PARTNERSHIP

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1986

(Continued)

(5) Commitments and Contingencies

Programming Commitments

The Partnership has entered into agreements for the rights to air certain programming beginning in 1987 through 1989. The cost of these agreements will be \$7,803,000. Deposits made pursuant to these commitments for programming available in 1987 are reflected as current assets, and in 1988 and beyond, are included in noncurrent assets.

The Partnership has provided a letter of credit as collateral for performance in connection with a portion of its sports programming. The remaining amount available under the letter of credit was \$612,700 as of December 31, 1986.

Construction Commitments

The Partnership is in the process of constructing a new tower site and purchasing certain remaining technical equipment along with a new antenna. Remaining commitments related to these projects are \$1,225,000.

Operating Leases

The Partnership leases certain assets under operating leases that expire at various dates through 1988. The rental expense related to these leases in 1986 aggregated \$9,996. The remaining commitments for these leases are as follows:

1987	\$ 9,996
1988	6,036

	\$16,032

ASTROLINE COMMUNICATIONS COMPANY LIMITED PARTNERSHIP

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1986

(Continued)

(6) Litigation

A third party has brought a legal action against the FCC seeking to overturn the FCC's order approving the transfer of the permanent license to operate the station to the Partnership. Arguments have been presented to the Circuit Court of Appeals for the District of Columbia and a decision is expected in the near future. The FCC has recently reconfirmed its position that the Partnership should retain the license and has urged the court of appeals to affirm this decision. The Partnership has filed as an intervener in the case and is vigorously defending its position and expects to be ultimately awarded a permanent license.

In addition, the Partnership has been sued by the seller of the original license for nonpayment of the principal and interest on the note payable issued in connection with the sale (see Notes 1 and 3). The Partnership contends that payment of the note is contingent upon both settlement of the litigation described in the previous paragraph and final assignment of the license to the partnership. The parties have agreed to refrain from any further proceedings until 60 days after the Circuit Court decision.

RC 006654

PB 00475B

CERTIFICATE OF SERVICE

I, Margie Sutton Chew, a secretary in the law firm of Fisher Wayland Cooper Leader & Zaragoza L.L.P., do hereby certify that true copies of the foregoing **"PETITION FOR EMERGENCY RELIEF AND STAY OF PROCEEDINGS"** was sent this 25th day of July, 1997, by first class United States mail, postage prepaid, to the following:

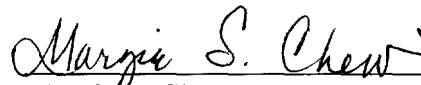
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* VIA HAND-DELIVERY